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June 17, 2004

RECEIVED

JUN 18 2004

PUBLIC SERVICE
COMMISSION

Via Hand Delivery

Elizabeth O'Donnell, Esq.
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Case 2004-00254

RE: Kentucky-American Water Company

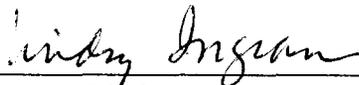
Dear Ms. O'Donnell:

Enclosed you will find the original and three (3) copies of the Application of Kentucky-American Water Company for a Certificate of Public Convenience and Necessity Authorizing the Construction of a One (1) Million Gallon Ground Storage Tank and Pump Station. One copy of Exhibit A and four copies of Exhibits B, C, D, E, F and G are being supplied.

Thank you.

Very truly yours,

STOLL, KEENON & PARK, LLP

By 
Lindsey Ingram, Jr.

/s/
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUN 18 2004

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY-AMERICAN WATER)
COMPANY FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY AUTHORIZING) CASE NO. 2004-00254
THE CONSTRUCTION OF A ONE (1) MILLION GALLON)
GROUND STORAGE TANK AND PUMP STATION)

Comes Kentucky-American Water Company ("Kentucky American Water") and states as follows:

1. That Kentucky American Water is a corporation organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business in Lexington, Fayette County, Kentucky, and is engaged in the distribution and sale of water in the City of Lexington, Kentucky, and in other areas of Fayette County, Kentucky. In addition it renders direct service in its Central District to customers in Bourbon, Clark, Harrison, Jessamine, Scott and Woodford Counties, along with service to seven (7) water resale customers; the cities of Midway, North Middletown, Nicholasville and Georgetown; Harrison County Water Association; South Elkhorn Water District; and a standby connection to the city of Versailles. Kentucky American Water also provides water services to the Northern District, a separate system in Owen, Gallatin and Grant Counties, with a sale for resale customer in Franklin County from a purchased water connection with the city of Owenton. The post office address of Kentucky American Water is 2300 Richmond Road, Lexington, Kentucky 40502.

2. That copies of the Articles of Incorporation of Kentucky American Water, together with all amendments thereto, have heretofore been filed with this Commission or its predecessor in connection with prior proceedings of Kentucky American Water. Copies of the

Articles of Incorporation of Kentucky American Water, together with all amendments thereto to date hereof, were filed as Exhibit 4 in Case No. 95-554, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective On and After February 29, 1996. The Articles of Incorporation of Kentucky American Water, together with all amendments thereto, are hereby incorporated herein by reference pursuant to 807 KAR 5:001(8)(3).

3. Kentucky American Water currently owns thirteen (13) water storage tanks with a total capacity of 19.58 million gallons to serve its Central District. These tanks maintain system pressures and provide storage for peak hourly demands. Eight (8) of these tanks have booster pump facilities on site to force water stored in the tanks into the distributions system. Kentucky American Water also owns eight (8) tanks in its Northern District with a capacity of 1.014 million gallons.

4. The demand upon Kentucky American Water for water service in its Central District, particularly including Fayette and Scott Counties, has increased significantly in recent years and continues to increase. On June 13, 2000, service pumpage of 66 MGD was required and on August 5, 2002, service pumpage of 72 MGD was required. Because of the continuous increase in customer demand in the Central District it has become necessary to increase the reliable storage capacity of the system. Additional storage is also necessary for reliable service in the Scott County area to allow for the painting and maintenance of the two (2) existing tanks while maintaining service to large usage customers such as Toyota.

5. In order to more effectively meet its responsibility to reliably deliver a safe and adequate supply of potable water to its customers, it is necessary for Kentucky American Water to construct a one (1) million gallon ground storage tank on Russell Cave Road just south of the Fayette/Bourbon County line. This facility will initially be connected into the existing

distribution system through an 8-inch main that runs along Russell Cave Road. In the future the facility will be connected to the existing distribution system by a 12-inch main that will be installed parallel to the Paris-Georgetown Road and connected to the 24-inch main at Newtown Road. The pump station will be initially equipped with one (1) 1 MGD pump that will provide service for the tank and the existing 8-inch main. The pump station will also be equipped with two (2) 3 MGD pumps to provide service for the tank and the 12-inch main that will be installed along Paris-Georgetown Road in the future. The pump station will also have emergency power generation equipment available to serve the tank and pump station.

6. The installation of the proposed facilities will give Kentucky American Water higher system operating pressures, increased storage capacity and more consistent service in the geographical area to be served by the proposed facilities.

7. The construction of the facilities shall be completed in accordance with the plans marked as Exhibit A and the specifications, which are attached hereto and marked as Exhibit B. A copy of the letter from the Kentucky Division of Water approving the submitted plans and specifications is attached and marked as Exhibit C.

8. This project is consistent with Kentucky American Water's December 6, 2003 filing with the Public Service Commission, Case No. 2003-00478.

9. This project is in accordance with Kentucky American Water's 1992 Least Cost Comprehensive Planning Study that was filed with the Public Service Commission in July 1992. The designation for the Russell Cave Road tank and booster station is displayed as B-8 in Exhibit 6-1.

10. The total cost of this project is estimated to be \$1,500,000. The actual construction is estimated to cost \$1,200,000 with the balance for land acquisition, design,

inspection, planning and administration. Of the \$1,200,000 construction cost, approximately \$340,000 will cover the direct purchase of a packaged underground water pump station. A total breakdown of the project cost is attached and marked as Exhibit D. The construction of the facilities as requested herein will be the most reasonable in terms of the investment in relation to efficiency and productivity and will not result in wasteful duplication of facilities or an unnecessary multiplicity of properties. The project will be initially funded by either available funds from a previous financing or short-term bank borrowings, which will subsequently be converted to permanent financing consisting of long-term debt and equity, as approved by this Commission on July 21, 2000, in Case No. 2000-189.

11. Kentucky American Water anticipates that the cost of operation of its facility will increase because of this installation. These costs include power consumption and operations costs and are estimated to be \$4,800 per year with the use of the 40HP 1 MGD pump. Following the 12-inch pipe installation along Paris-Georgetown Rd, the 200HP 3 MGD pump will be utilized and annual costs for power consumption and routine maintenance are estimated to be \$7,800. These costs represent less than 1% of Kentucky American Water's total fuel and power costs and will be absorbed into the rate structure filed in Case No. 2004-00103. Routine maintenance expenses will increase which include formal tank inspections every seven years, estimated to cost \$3,000 each and beginning in 2012; interior recoating every 15 years at \$2,500 beginning in 2021; and exterior recoating every 20 years at \$37,500 beginning in 2025. The increase in estimated annual depreciation is \$84,750. There will be additional costs of debt and equity.

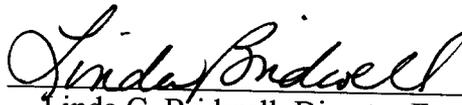
12. Kentucky American Water does not believe that this facility will compete with any other water purveyor.

13. Kentucky American Water received construction bids for the project on May 18, 2004. Attached and marked as Exhibits E and F are the tabulations of the bids received for this project. The bid price has been incorporated with the engineer's estimate. Also attached and marked as Exhibit G are two letters from Quest Engineers, recommending that the bids of USEMCO, Inc. for the purchase of the prepackaged underground pump station, and Judy Construction for the general contractor, be accepted for the construction of Kentucky American Water's Russell Cave Tank and Pump Station.

14. Kentucky American Water has negotiated rights for the use of property at 7350 Russell Cave Road for construction of the facility. All necessary permits have been obtained including required state permits for underground utilities and private entrance.

WHEREFORE, Kentucky American Water prays for a Certificate of Convenience and Necessity authorizing construction of the facilities as described herein pursuant to KRS 278.020 and 807 KAR 5:001 Section 9.

KENTUCKY-AMERICAN WATER COMPANY

BY: 
Linda C. Bridwell, Director Engineering

Lindsey W. Ingram, Jr., Esq.
Lindsey W. Ingram III, Esq.
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300 West Vine, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000

BY: 

COMMONWEALTH OF KENTUCKY)

COUNTY OF FAYETTE)

Subscribed, sworn to and acknowledged before me on this 17th day of June, 2004, by Linda C. Bridwell, Director Engineering of Kentucky-American Water Company, for and on behalf of said corporation.

My Commission expires: 7-5-06

Sharon K. Fyfe
NOTARY PUBLIC, State at Large, Ky.